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# Lazydays Holdings, Inc.

## Second Quarter 2018 Financial Results Conference Call

## August 9, 2018

## CORPORATE PARTICIPANTS

**James Meehan,** *Controller*

**William Murnane,** *Chairman and Chief Executive Officer*

**Nicholas Tomashot,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Steve Dyer,** *Craig-Hallum*

**Paul Penney,** *Northland Capital*

## PRESENTATION

**Operator:**

Good morning. My name is Caitlin and I will be your conference operator today. At this time, I would like to welcome everyone to the Lazydays Holdings Inc. Second Quarter 2018 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

James Meehan, Corporate Controller, you may begin your conference.

**James Meehan:**

Thank you Operator. Good morning and thank you for joining us for our Second Quarter 2018 Financial Results Conference Call. I'm James Meehan, corporate Controller of Lazydays.

We issued the Company's earnings press release this morning. A copy of the earnings release is available under the events and presentations section to the investor relations page of our website, and has been furnished as an exhibit to our current report on Form 8-K with the SEC.

With me on the call today are Mr. Bill Murnane, our Chairman and Chief Executive Officer, and Mr. Nick Tomashot, our Chief Financial Officer.

As a reminder, please note that some of the information that you will hear today during our discussion may consist of forward-looking statements, including without limitation those regarding revenue, gross margins, operating expenses, stock-based compensation expense, taxes, product mix and geographic expansion. Actual results or trends for future periods could differ materially from the forward-looking statements as a result of many factors. For additional information, please refer to the risk factors discussed in the Form 8-K filed with the SEC on March 21, 2018.

We will also discuss non-GAAP measures of financial performance that we believe are useful to the Company, including EBITDA and Adjusted EBITDA. Please refer to our earnings press release for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

For the three months ended June 30, 2018, the financial information presented represents the operating result of Lazydays Holdings Inc. For the three months ended June 30, 2017, the financial information presented represents the operating results of Lazydays RV Center Inc. For the six months ended June 30, 2018, the financial information presented represents the combined operating result of Lazydays Holdings Inc. for the period from March 15, 2018, to June 30, 2018, with the operating result of Lazydays RV Center Inc. for the period from January 1, 2018, to March 14, 2018. For the six months ended June 30, 2017, the financial information presented represents the operating result of Lazydays RV Center Inc.

Now it is my pleasure to introduce Bill Murnane.

**William Murnane:**

Thank you James, and good morning everyone.

We are very happy to report strong quarterly results. Our Adjusted EBITDA increased by 2.5% to $10 million in the quarter. Although our total revenue decreased 1.6% to $162.1 million, this decrease was the result of a mix shift towards higher margin, lower average selling price, towable products. Nick Tomashot will give more details on the mix shift and its impact in a few moments when he provides more details on our financial results.

Recreational vehicle demand remained strong in the marketplace. More importantly, we were able to improve our margins and leverage unit growth to deliver strong bottom line performance. We will remain very focused on delivering strong margins and profitable revenue growth.

The RV industry remained strong and we see no change in the underlying trends of the industry. We continue to see strong demand from all demographic groups.

Now I'm going to turn the call over to Nick Tomashot, our CFO, to take you through some of the financial highlights of the second quarter.

**Nicholas Tomashot:**

Thanks Bill, and good morning everyone.

Please note that unless stated otherwise the comparisons I'm providing are between the recent second quarter ended June 30, 2018, compared to the same period for 2017.

As Bill stated, we continued to show growth in the second quarter of 2018 where, excluding wholesale, RV unit sales across all of our dealerships for the quarter increased 3.9% to 2,104 units versus 2,025 in the second quarter of 2017. Year to date, unit sales excluding wholesale were up 1.6% to 4,157 units through the end of June 2018, compared to 4,090 for the same period last year.

Total revenue for the quarter decreased 1.6% to $162.1 million.

Although RV unit sales were up for the quarter, new and pre-owned RV sales revenue decreased $2.3 million to approximately $144.4 million, reflecting an overall shift in mix towards towable units, which have lower average selling prices per unit.

New RV sales decreased $7.8 million or 8.1% to $88.6 million, while new vehicle unit sales increased 63 units or 5.3% to 1,249, the average selling price decreased by 12.7% to approximately $70,400 per unit, driven by shift in a mix towards towables.

The decrease in new vehicle revenue was offset by an increase in pre-owned vehicle sales revenue, which increased approximately $5.5 million or 10.8% to $55.7 million. This reflects both a 1.9% increase in pre-owned units sold excluding wholesale to 855 plus a 6.6% increase in the average revenue per unit sold to $59,500.

For the quarter, pre-owned motorized versus towable RV unit mix was comparable to prior year, with motorized units growing at a moderately faster rate than towables.

Revenues in our other channels consist of sales of parts, accessories, and related services, finance and insurance revenue, as well as campground and other revenue. In total, second quarter revenue associated with these other lines of business decreased by approximately $0.3 million or 1.5% to $17.8 million. Prior year second quarter 2017 revenue included approximately $0.9 million of our now discontinued e-commerce business sales. Excluding these e-commerce sales, revenues from these other lines of business increased approximately $0.8 million or 3.7%.

Sales in our other parts and service department increased by approximately $0.2 million or 2.6% to $8.1 million.

Finance and insurance sales increased approximately $0.6 million or 8.2% to $8.2 million. This was driven by our previously mentioned increased RV unit sales for the quarter.

In total, Lazydays second quarter 2018 gross profit compared to 2017 increased 5.7% to $35.7 million.

Despite the overall decrease in sales revenue for the quarter, the mix shift towards pre-owned and towable units, which carry higher gross margins, drove a 9.7% increase in our RV sales gross profit to $22 million. Gross profit from our other lines of business was approximately flat at $13.7 million, but showed a year-on-year increase of approximately $0.1 million or 1.2% excluding the 2017 impact of our discontinued e-commerce business.

Excluding transaction costs related primarily to the business combination between Andina Acquisition Corp. II and Lazydays RV Center Inc., operating expenses increased approximately $4.7 million or 6.5% to $30.3 million. This was primarily driven by increased non-cash expenses, with combined depreciation and amortization increasing $1.2 million to $2.7 million, driven by the balance sheet revaluation from the March merger, as well as $2.5 million attributable to stock-based compensation for awards granted with market conditions in March.

As a percentage of gross profit, selling, general and administration or SG&A expenses excluding transaction costs increased 880 basis points to 84.6%. Excluding transaction costs, depreciation, amortization and stock-based compensation, SG&A as a percentage of gross profit decreased 120 basis points from 70.9%, second quarter 2017, to 69.7% for the second quarter of 2018.

Net income for the second quarter of 2018 was $1.8 million, down from $3.6 million in the prior year. This 2018 net income includes the impact of $3.7 million of before tax non-cash expense increases versus 2017 that I previously mentioned in my SG&A discussion. This increase in non-cash expense was made up of the $1.2 million before tax increase in depreciation and amortization, as well as a $2.6 million before tax expense attributable to stock-based compensation.

Adjusted EBITDA increased by approximately $0.2 million or 2.5% to $10 million. Adjusted EBITDA margin increased by 20 basis points to 6.1%. Please refer to our earnings release for a table which includes a reconciliation of net income to Adjusted EBITDA.

Now turning to our June 30, 2018 balance sheet and financial position, we had cash on hand of $35.6 million and net working capital of $57.6 million. We had approximately $115.2 million in inventory, consisting of $82 million in new vehicles, $29.2 million in used vehicles, and approximately $4.1 million in parts inventory.

As of June 30, 2018, we had no borrowings under our $5 million revolving credit facility, $19.3 million of term loans outstanding, and $95.8 million in notes payable on our floor plan facility.

The Company's effective tax rate was 39% for the second quarter of 2018, as compared to 38.1% in 2017. Differences between the new statutory rate and our 2018 effective rate are primarily a result of the impact of the non-deductible stock compensation expense and transaction costs on the effective tax rate.

Thank you, and I'd like now to turn the call back over to Bill Murnane.

**William Murnane:**

Thank you, Nick.

I'd like to give a little more insight into the mix shift we are experiencing. Going forward, we believe there will be two components to a continued mix shift towards towable products. First, as younger first-time buyers enter the market, they are typically purchasing more affordable towable products that carry lower average selling prices. Second, as we continue our geographic expansion, we will most likely acquire or create dealerships that have a higher towable mix than Lazydays' current or historical towable mix of 50% to 60%.

As many of you know, our Tampa dealership has a very strong and successful motorhome business. Tampa is a very unique dealership, given its size and location. As we expand, we don't believe there will be many opportunities to create a dealership similar to Tampa. Our other dealerships, and most dealerships across the country, have a towable mix of 70% to 80%. Therefore, as we expand geographically, it is only natural to expect that our towable mix would increase. Given towable products typically generate higher gross margin as a percent of revenue, we would also expect our gross margin as a percent of revenue to increase as our towable mix grows.

We are very excited to have closed our acquisition of Shorewood RV in Minnesota this week. This dealership is now branded as Lazydays. Our Minnesota team is talented, and we are excited to welcome them into the Lazydays family. We will immediately begin construction on a new state of the art service facility in Minnesota, and expect this facility to have a meaningful impact on our Minnesota dealership's growth, beginning in the spring of 2019.

It is important for our investors to note that the Minnesota selling season will begin to slow down in the next 30 to 60 days, so we don't expect Minnesota to have a significant impact on our Q3 and Q4 2018 financial performance.

Regarding future geographic expansion, we are actively looking at multiple expansion opportunities, and we remain confident that we will be able to continue to grow our network of dealerships and service centers.

Our three-point strategic focus has not changed and will not change in the foreseeable future. We will continue to be focused on, one, providing each and every customer with a best in class experience; two, delivering outstanding and predictable service; and three, growing our dealership and service network geographically.

This concludes our prepared remarks; Operator, you can now open up the lines for questions, please.

**Operator:**

At this time, I would like to remind everyone in order to ask a question, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. We ask that you limit yourself to one question and one follow-up. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Steve Dyer with Craig-Hallum. Your line is open.

**Steve Dyer:**

Thanks. Good morning Bill. Good morning Nick.

**William Murnane:**

Good morning, Steve.

**Nicholas Tomashot:**

Good morning, Steve.

**Steve Dyer:**

I guess just a couple questions on the mix shift. It seems, I don't know, I don't know if it was sudden, I guess in your view, was it a function of mix shift change sort of at the Tampa facility, or just more outperformance at some of the smaller dealership groups, and is that something that you sort of expect even absent acquisitions, is that something that you think we should be thinking about more going forward?

**Nicholas Tomashot:**

It was actually both. We had some strong performance outside of Tampa as well as the mix shift in Tampa. It's something we were talking about this morning about whether we need to evaluate breaking that out in the future, but we haven't previously broken out our towable mix.

**William Murnane:**

So, I think probably the part that was maybe it wasn't a surprise but we didn't plan on as much is maybe the out-performance at an outlying dealership had a very strong quarter, and they have a heavier towable mix. But as we grow geographically I think the most of the dealerships that we either acquire or create, Steve, will have a much stronger towable mix. So I think it's right to expect that to grow going forward.

**Steve Dyer:**

Then just a couple other questions, I mean do you feel like that's the same customer that maybe instead of buying a small Class A maybe opts for a fifth wheel or something like that, or is this an entirely different sale to a different customer, and then I guess also along those lines does that sort of impact how we should think about your revenue growth rate, kind of you guys have sort of talked about that mid single digit number; does that change that?

**William Murnane:**

It may. We need to do some more analysis on it, but it may think about how we look at our revenue growth rate, certainly not our bottom line growth rate, because as we've stated the towable products tend to carry higher margins and the F&I that goes with the towable product tends to carry a higher margin relative to the unit as well. But the other part of your question, Steve, I …

**Steve Dyer:**

Yes, I was just trying to figure out, in the mix shift, is that typically a different sale to the same customer? In other words somebody opts for a fifth wheel instead of a small Class A or are you seeing the absence of one kind of customer and a totally new customer walking in the door?

**William Murnane:**

No, I think it's both again, but there definitely are some customers who may have—there's been a tremendous progress made, I would say, in fifth wheels and the amenities offered in fifth wheels. So there are definitely customers who are trying to detach the drive train from the unit itself, so they can have a little more freedom to travel once they've reached their destination. So there's some of that going on, people opting for a fifth wheel or larger towable product versus maybe a smaller Class A or B or C, and I think again, it's the newer entrants to the market also that are driving that a little faster, sure.

**Steve Dyer:**

Okay. Then lastly for me and I'll hop back in the queue, just kind of with the moving parts, you guys have typically given some sense of how you're thinking about EBITDA for the year, and sort of given that, how should we sort of think about this year's number going forward?

**William Murnane:**

I'm not sure what you're—we aren't giving guidance, Steve, if that's what you're asking, for the year.

**Steve Dyer:**

Got it. Okay. Thanks.

**Operator:**

Again, if you would like to ask a question, simply press star followed by the number one on your telephone keypad. Your next question comes from the line of Paul Penney with Northland Capital. Your line is open.

**Paul Penney:**

Good morning, Bill and Nick.

**William Murnane:**

Hey Paul.

**Nicholas Tomashot:**

Hey Paul.

**Paul Penney:**

Can you talk about some of your like your tangible recent efforts to kind of reinvigorate the F&I and service and repair segments, and specifically, as a percentage of revenues, where can these two segments go over a longer-term basis?

**William Murnane:**

I think the biggest opportunity on the F&I side is with some of the newer dealerships that we either create or acquire. We tend to find that our performance at our existing dealerships is higher on the F&I side that a lot of the dealerships aren't looking at, so we do think that's a definite opportunity. For example, we're looking at dealerships in the range of 3% to 4%, their F&I is in 3% to 4% of the units they sell, as a percent of revenue; ours tends to be higher than that.

On the service side, we think there's a big opportunity. We've got some work to do. We're still in the process of locking down our processes and procedures, so that we can provide very good, very predictable service for our customers, and we aren't quite there yet. It's probably going to take us another six months to really lock down our process and procedure internally, but then we do see a pretty substantial opportunity to increase our service offering, both at our existing operations by becoming more efficient and creating more capacity, and at new locations around the country.

**Paul Penney:**

Okay great. Then switching over to acquisitions, can you just give a general range on what kind of multiples you're seeing, deals (inaudible)?

**William Murnane:**

We really haven't given that; we've—I think we've said in the past, in the two to four times range, and that's kind of where we think the market's at right now.

**Paul Penney:**

Fair enough. Lastly, just go back to the mix shift question. What is the differential in margins? Do you, given kind of this mix shift, do you (inaudible) plan to change like your inventory or store layouts to—or is it too early, at that point, at this point?

**Nicholas Tomashot:**

We haven't broken out our towable versus motorized margins. We have been disclosing the new versus the used. But as for managing the mix and the inventory, you'll see, if you look at our disclosures, we've actually taken our inventory down quite a bit so far this year, and part of that is managing to making sure we have the right units on the lot that are going to be turning. But there is a shift toward towables as well being reflected in that.

**William Murnane:**

And just so you know, we literally meet every week and evaluate our inventory and our orders. We manage our inventory very closely. In those weekly meetings we're constantly evaluating what's selling, what isn't selling, and adjusting to make sure we have the best, fastest-selling, highest-turning, most profitable products on our lot possible. So we manage that very very closely, every week, not just every quarter or every year.

**Paul Penney:**

Great. Thanks guys.

**Operator:**

Final call for questions, again that is star, one if you would like to ask a question.

We have no questions at this time. This concludes today's conference call. You may now disconnect.